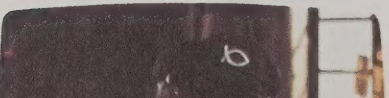
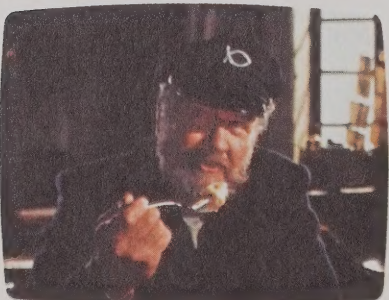


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Annual Report 1979



National
Sea Products
Limited



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Our Cover Photo

Millions of viewers across Canada recall this closing sequence in our series of popular television commercials, superimposed with the renowned High Liner trademark.

TV Series — Shown here are selections from current television commercials. Canadians from coast to coast have expressed pleasure with the format, especially with our Captain High Liner and "Little Billy".

A leader in the seafood industry in Canada, National Sea Products Limited harvests, processes and markets seafood products throughout the world. It is a Canadian-owned company, and its shares are listed on both the Toronto and Montreal stock exchanges.

The Company operates over 50 fishing vessels and has numerous processing plants throughout Eastern Canada, as well as plants in the states of Maine and Florida.

To many consumers, we are "The High Liner[®] people". Our High Liner brand of processed seafood products is, in fact, the market leader in Canada, is gaining a growing share of the market in the United States, and High Liner is becoming a familiar trademark in many other countries where the Company does business.

The year's highlights

National Sea Products Limited
Head Office: Duke Street Tower
Scotia Square, Halifax, Nova Scotia

(All amounts in thousands, except as indicated +)	52 weeks to December 29 1979	52 weeks to December 30 1978
Net Sales	\$268,057	\$217,481
Net Income	\$ 8,503	\$ 10,623
Earnings per Common Share		
Before extraordinary items	+ \$1.72	\$2.34
After extraordinary items	+ \$1.81	\$2.34
Dividends paid per Common Share A	+ 40.0c	79.3c
Dividends paid per Common Share B	+ 40.0c	74.4c
Cash Flow	\$ 18,131	\$ 16,386
Cash Flow per Common Share	+ \$3.89	\$3.62
Working Capital	\$ 20,834	\$ 17,462
Ratio of Current Assets to Current Liabilities	+ 1.26	1.32
Fixed Assets, net of depreciation	\$ 68,500	\$ 42,066
Common Shareholders' Equity	\$ 39,060	\$ 32,517

Certain 1978 figures have been restated.

Valuation Day Price (December 22, 1971)
Common Shares \$3.17
Preference Shares (5½%) \$3.25



Directors' report to the shareholders

We expect that Canada will maintain its position as the world's largest fish exporter in 1980, with your Company having a continuing and significant role in this achievement.

While we are optimistic about the future, it is an optimism tinged with caution. We will have to absorb enormous increases in the price of fuel and petroleum-based products. Inflation is increasing our costs in all areas at an alarming rate and we anticipate some difficulty in recovering these costs in the marketplace. Government regulations and licensing policies are obscure in purpose and discriminatory in effect, and uncertainties are compounded by provincial claims to resource management. In consequence, the investment climate in Atlantic Canada is a matter for concern.

Financial and operating results

Our financial year, which ended December 29, 1979, was a year of significant sales growth, but the net income was not only below our expectations but also below that of 1978. Sales and other revenue increased from \$217,481,000 to a new high of \$268,057,000, an increase of 23.3%. This increase was due to higher prices, slightly better fish landings, reasonably firm fish markets and favourable foreign exchange rates.

Net income, however, dropped to \$8,503,000 from last year's \$10,623,000. The decrease in profit was caused largely by our inability in the market place to recover our increased costs as rapidly as they occurred. High interest rates have caused some changes in our customers' buying habits which has resulted in your Company experiencing an abnormal buildup of inventory and related interest costs. You will note from the statement of consolidated income that interest on short term debt increased to \$4,071,000 from \$1,741,000 in 1978.

After paying regular dividends on preference shares, earnings amounted to \$1.81 per common share in 1979 compared to \$2.34 in 1978. Cash flow amounted to \$3.89 per common share in 1979 compared to \$3.62 in 1978. In August, a dividend of \$0.40 was paid on each common share.

The Company's share of the domestic market was maintained at slightly higher levels and late in the year several new products were introduced. Our new fish-in-sauce entrées, after four years of development and extensive market research and testing, promise to be a major addition to our product line. The United States and International markets again showed significant growth.

Our affiliated companies, as a group, did not fare too well. The Burgeo operation continues to be a problem; however, with our new replacement trawlers coming on stream later this year there should be an improvement. Our Bermudian insurance operations had a reasonable year with profits better than last year.

Fixed asset additions amounted to \$31,528,000 in 1979, compared with \$10,296,000 in 1978. The major expenditures were the new plant at Arnold's Cove, a major addition which is nearing completion at Lunenburg, as well as progress payments on new trawlers under construction.

All Company plants had a busy year with only one short work stoppage, occurring at the St. John's Division. Employee earnings, as well as fishermen's earnings, were at an all-time high.

This year's income resulted in a significant contribution in the amount of \$1,496,000 being made to the Employees' Savings and Profit Sharing Retirement Plan. This compares to \$2,044,000 in 1978, the highest income year in the Company's history.

New investments

Late in the year the Company invested in a new fully integrated Uruguayan fishing venture Astra Pesqueras Uruguayas S.A. This is a public company with two prominent Uruguayan industrial groups as the principal shareholders. It will have a new fleet of modern stern trawlers as well as a modern processing plant and will participate in the hake, croaker, sea trout, squid and anchovy fisheries off the Uruguayan coast. South American hake is becoming more popular in many of the world markets and this association will give us an opportunity to participate in this important fishery and its markets.

Uruguay, while a newcomer to the world fishery, has started off with an enlightened management system. Its quality requirements, catching and processing facilities, resource allocation, and methods of sharing the resources with its neighbours, have been carefully planned and the industry is developing in an orderly fashion.

Your Company is a technical partner of Astra Pesqueras Uruguayas S.A. providing the necessary fishing and processing expertise. The International Finance Corporation is involved in financing this project, and also maintains a small equity interest.

We have entered into a joint venture in Australia with Edgell's Division of Petersville Australia PTY Limited, a large food processor and distributor. The venture will build and operate a plant at Bathurst, Australia, and will process fish fingers and breaded and battered fish portions, to be marketed principally in Australia. Again, this is in step with the Company's strategy of enhancing its position in world markets by appropriate investments. The Bathurst project, which has a total capital cost of four million Australian dollars, will commence operations in the spring of 1980.

This global outlook in no way means that we are less anxious to utilize viable growth opportunities in Canada. Our investment in Arnold's Cove in Newfoundland at a cost of approximately \$5 million along with the \$6 million addition to the Lunenburg plant in Nova Scotia attests to this interest.

In November 1979, your Company acquired Tidewater Seafoods Inc. of Prince Edward Island, formerly owned by an Ontario based firm. This acquisition became the new Charlottetown Division of National Sea Products Limited and will continue to produce several lines of canned goods, including seafood chowders, marketed principally in Canada. It is our plan to increase production over a period of time, working into a two-shift operation to replace the current single shift.

Fleet replacement

During the year, we ordered six newly designed stern trawlers: three are to be built in Halifax, and three in Japan. At the time of writing, one trawler from the Japanese yard has already been launched, and the Japanese-built trawlers will be joining our fleet during the summer of 1980. The six ships will cost close to \$37 million.

The outlook into the eighties

As we came to the end of 1979, it was obvious that the 80's are starting in a very uncertain way. Our Nova Scotia groundfish trawler captains, faced with the inequities of a fisheries management plan and fish quotas that discriminated against the offshore fishermen, tied up our vessels at dockside and refused to sail. In Newfoundland, trawlermen struck over economic issues, tying up our vessels, along with the fleets of all other Newfoundland fishing companies. The Nova Scotia tie-up was settled after the promise by government of a more equitable fishing plan, and the Newfoundland strike was settled late in January of this year.

The viability of the industry depends to a great extent on the balance between the inshore and offshore segments of the fisheries. In our opinion, allocations of quotas have been increasingly tilted in favour of the small boat fishery. Over-expansion of the small boat fleet, over-regulation, jurisdictional problems, and the threat of balkanization of the resource have all contributed to a lack of clarity in licensing policies and control systems.

There is a failure to acknowledge that world markets dictate the kind of technology we must develop. All of these matters lead your Company to be concerned about the future development of the industry.

When we view the international markets available to us, we must acknowledge that we are prevented from serving them properly. We have previously stated that we must make use of the available new technology in order to position ourselves competitively in providing a top quality product which meets world expectations. Canada desperately needs a new class of factory freezer trawler that has the potential to freeze at sea or freeze and process the catch in the way the marketplace demands. Faced as we are with the most promising opportunity in years for fishery development, it is often an embarrassment to many Canadians that we are unable to participate in some of these technological fishing improvements. Energy costs alone will make the distant water fishery within Canada's 200-mile zone uneconomic if we do not have the proper equipment. We continue to argue that future government policies should permit the use of some factory freezer trawlers in the Atlantic fishery.

Your Company feels that the 80's will present challenges and opportunities beyond imagination. The effect of energy costs on food costs and on life styles will be dramatic. Technical development and research programs will be essential just to maintain our position in the marketplace, let alone expand it: We foresee aquaculture as finally playing an important part in supplying fish protein, since catching costs in certain energy-intensive fisheries, such as shrimp, will have a dramatic effect on prices. Improvements in process techniques, as well as new product development, will be essential in order to remain competitive in the future.

We have, along with H. B. Nickerson & Sons Limited, made a substantial financial commitment to position ourselves in the field of technological development for the 80's. A new technical development company has been formed to service both the sponsoring companies. We are most fortunate to have Dr. Samuel A. Goldblith, one of the world's leading food technologists, to act as Chairman of the Board of Directors and to direct the activities of the new company in its initial

stages. Dr. Goldblith is a Vice President of Resource Development and Professor of Food Science at Massachusetts Institute of Technology and will continue in that role. We expect to be in a position very shortly to announce the operational head for the new company.

Directors

During the year, one of our long-time employees and Directors retired from the Company. C. R. McFadden joined the Company in 1945, was named Secretary and Treasurer and was elected to the Board of Directors in 1961, and in 1965 was appointed Vice President Finance. In 1967, he became a member of the Executive Committee, and 1977, Senior Vice President. His valuable service in guiding the Company's financial affairs has contributed in large measure to the growth of National Sea.

In appreciation

The backbone of the Company, our fishermen and employees, now number 7,000. The Directors congratulate them for the outstanding contribution made to the growth of National Sea Products Limited and the enviable reputation enjoyed by the Company and its products.



W. O. Morrow
President

National Sea Products Limited is the largest diversified and integrated fishing company in Canada, and one of only two publicly owned companies in the industry. It is recognized as a market-oriented corporation with a reputation for fairness and integrity in its business operations. The Company is committed to enhancing its unique and esteemed position in the industry.



Operating Principles

National Sea Products Limited strives to be the Canadian leader in the profitable procurement, processing and marketing of seafood and related products in the Canadian, United States, and International markets.

National Sea Products Limited seeks the support and co-operation of fishermen and employees by providing competitive remuneration, a good working environment, and opportunities for personal growth and development through training and educational programs.

National Sea Products Limited is guided by responsible financial and investment policies, designed to protect shareholders' investments and provide adequate return on equity.

National Sea Products Limited strives for responsible corporate citizenship and follows a high standard of ethics in all its business affairs.



National Sea Products recognizes that the support and co-operation of fishermen and employees are vital elements for the continuous success and well-being of the Company.

There are over 7,000 fishermen and employees involved directly in the Company's operations, and National Sea buys almost half its raw material supply from some 4,000 independent fishermen.

National Sea Products is proud of the fact that good employee relations provide the Company with a stable, well-trained workforce. National Sea endeavours to provide a safe and pleasant working environment, competitive incomes, and employee information and training opportunities. Many people have been with the Company for a considerable number of years, a fact not common in an industry where operations are sometimes seasonal and turnover rates are high.

Credit for this stability is due in large part to the broadly based on-going communications programs at

National Sea. Orientation sessions for new employees have been established in the Company's six largest plants. The Employees' Savings and Profit Sharing Retirement Plan, unique in the industry, contributes greatly to a sense of "family spirit" within the Company. National Sea's employee newsletter, the "High Liner", is published quarterly in both French and English, and is distributed to all plant and office locations. It provides a source of general information on Company locations, new products, plant openings, and employee programs such as the National Sea Products Limited Scholarship Awards. This program, started in 1979, provides five university entrance scholarships valued at \$1,500 each, and is administered by the Association of Universities and Colleges of Canada.

A film produced by the Company, "A Long Way From Yesterday", which traces the progress of National Sea's fishing operations from harvest to market, was placed in the Fisheries Museum of the Atlantic, where it was viewed last year by over 50,000 people. The film, completed late in 1978, is an information piece used in place of plant tours.

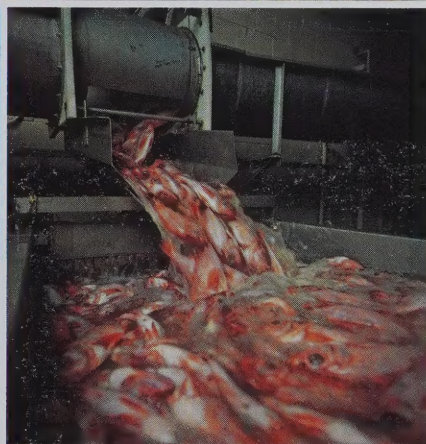
The Company has instituted a number of retirement and long service awards, including plaques, dinners, and special recognition for those retiring after 25 years or more of continuous service.

It is the Company's view that the dedication, skill, and productivity of its people add up to one of the major reasons for National Sea's success.



Through the continuous upgrading and modernization of the fishing fleet, the Company remains a leader in the harvesting of the fishery resources of the North Atlantic.

The Cape Beaver at the time of her launching; one of the three National Sea trawlers being built in Japan.



Harvesting the resource is the first step in the chain from ocean to table. National Sea's fleet is one of the most modern on the east coast of Canada, equipped with sophisticated navigational aids and fish finding equipment. Although the fleet is involved in all aspects of traditional fishing, the Company is seeking the opportunity to use modern freezer technology to pursue the efficient catching of squid, mackerel, and other under-utilized species.

The Company's fleet of over fifty vessels consists of side trawlers, stern trawlers, scallop draggers and herring seiners. These vessels contributed to National Sea's fish purchases for all species of 319,000,000 pounds in 1979, up 6% from 1978.

The year 1979 has seen the signing of contracts for the construction of six new wetfish trawlers of the latest design. Three are being constructed in Japan, and three in Halifax, Nova Scotia. These trawlers represent another step in the Company's fleet modernization program, and a capital investment of some \$37 million. Methods of petroleum energy conservation as they apply to the fleet continue to be researched in the 80's, and will continue to be reflected in the design of Company vessels.

In an effort to utilize a limited resource to its fullest extent, consistent with sound management principles, National Sea Products participated in the development of a film on the behaviour of its fishing trawls. This unique film demonstrates to captains and mates of the Company's vessels the performance of the trawling nets under simulated working conditions.

To the Company's knowledge, it is the first time a film of this nature has been made. It is expected that training programs of this type will contribute to the greater efficiency of the fleet.

The number of expansion and modernization programs that were undertaken in 1979 demonstrate the Company's commitment to efficient up-to-date processing methods.

A major capital expenditure program resulted in the completion of several projects in 1979. In the summer, a new facility at Arnold's Cove, Newfoundland, started production. This plant, supplied almost exclusively by inshore fishermen, operates throughout the entire year, and is designed to handle several species simultaneously. The plant is also heavily involved in secondary processing, notably the production of salt, spice, and vinegar cured herring products, kippers, and smoked fillets.

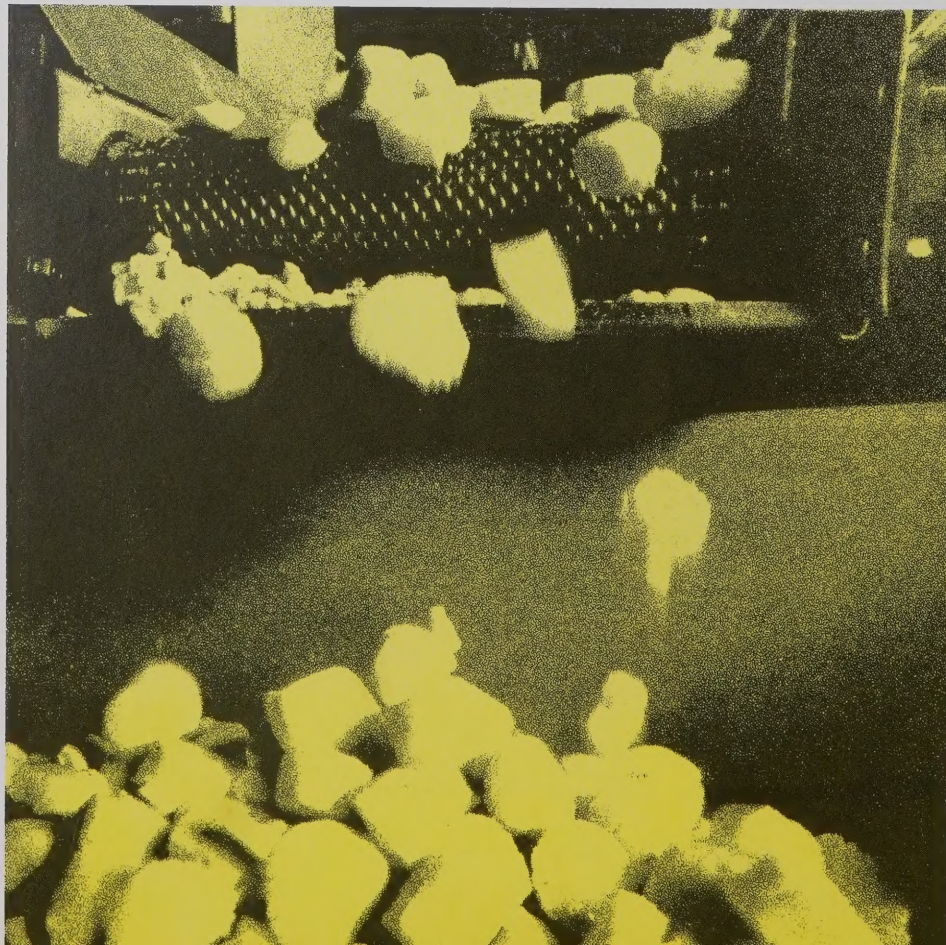
Cold storage capacity was almost tripled at National Sea's largest division at Lunenburg, and the processed fish operation was also expanded. The Company has also installed the latest in energy-saving equipment in the refrigeration system. This installation will serve as a prototype for conservation at other plant locations.

An expansion at the Digby Division doubled the refrigeration capacity. As well, the freezing capacity was greatly increased at the Shediac Division in New Brunswick. The Company also created the Charlottetown Division of National Sea upon the acquisition of Tidewater Seafoods Inc.

We are in the process of moving into an addition to the Lunenburg plant which includes a Technical Centre. This centre will provide a modern working environment for the Product Development, Quality Assurance, Engineering, Process Development, and technical support staff. A new production line will be installed in another part of this expansion, and improvements to the fish meal plant are underway. At the Florida plant in Tampa, a modern cold storage addition is under consideration.

The investment in Uruguay and our joint venture in Australia will enable the Company to participate in important new fisheries as well as present new marketing opportunities internationally.

Constant upgrading of existing facilities, general maintenance of physical assets, and ongoing work in all fields of method improvement and energy conservation all contribute to making National Sea's processing plants more effective.



Quality and innovative product development are top priorities at National Sea Products Limited.

The effectiveness of marketing programs is substantially dependent on the ability to supply, on a continuing basis, products of consistently high quality. This is why the Company's High Liner® brand is a market leader in Canada, and is becoming better known internationally.

The year 1979 has seen the launching of a new line of turbot products, and the introduction of an oven ready "Fillets in Sauce" entrée which is available as Fillets in White Sauce with Spinach, Fillets in Cheese Sauce, Fillets in Mushroom Sauce, Fillets in Parsley Sauce, and Fillets in Lemon Butter with Rice. These products, as well as other High Liner successes were developed at the "High Liner Kitchen" in Lunenburg, and given extensive market testing both locally and nationally. They are now available throughout Canada and are expected to be available in the near future in the United States. The Company's product line has also been expanded with a new family of canned seafood chowders, marketed principally in Canada.

National Sea is committed to enhancing the reputation of Canadian seafood products both at home and abroad. Quality begins at the harvesting stage, and is carefully preserved through the processing, distribution, and marketing operations. The Company has invested in research and modern techniques which preserve the freshness and firmness of the species it catches, and is modernizing and expanding its quality control laboratory at Lunenburg. Plans are also being formulated for a quality control laboratory at the Shediac Division in New Brunswick. These labs will help ensure the consistent high quality of High Liner products.

National Sea markets its wide range of seafood products in over 20 different countries abroad, as well as in Canada and the United States. The Company has a reputation for "top quality" and intends to see that its reputation is both deserved and maintained.



Satisfying the demands of the consumer in the marketplace will determine the successful growth and development of Canada's fishery in the 1980's.

Innovative growth of traditional and non-traditional markets for the fish species that abound within Canada's 200-mile zone is clearly the marketing objective for the 1980's. National Sea can look back on healthy sales growth in 1979, the third year of Canadian management of the zone, and look to the future for increases in sales volume in Canada, the United States, and other countries in the world.

Progressive marketing initiatives undertaken by the private sector, and government programs dealing with export development and tariff reductions are seen as keys to orderly growth. National Sea recognizes the challenges it faces, and is convinced that markets for the Company's products will expand in the next decade.

Domestically, the Company sees a strong growth in the traditional products segments in the early eighties. While this may be followed by some levelling off in the growth rate of Canada's per capita consumption, the Company looks to product

development and innovation as the means of continued industry leadership and success.

The new line of Fillets-in-Sauce entrées, under our High Liner® label, is an example of the kind of product innovation that will expand the total market. The introduction of the five fillet-in-sauce products this year followed almost four years of development activity.

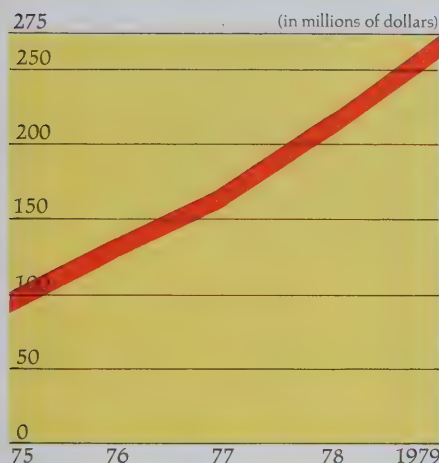
In the United States market the Company will give increased emphasis to the promotion and growth of High Liner brand items, with concentration upon the development of new and innovative processed products. The Company also intends to give priority attention to the further development of its United States marketing organization.

The challenges facing us will be met. The Company looks for further expansion in markets recently opened for us, and will continue to look for new opportunities both at home and abroad.

Major markets served by
National Sea Products Limited



Operating results



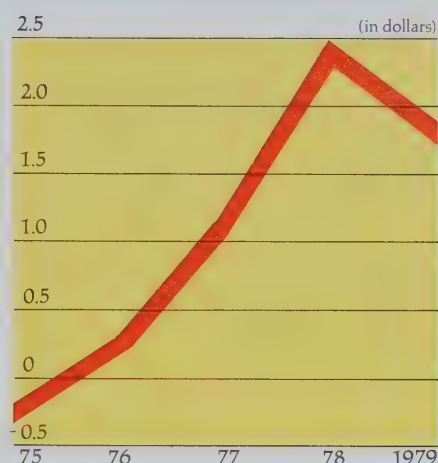
Net Sales

As a result of improved landings, higher prices, firm markets and favorable foreign exchange rates, net sales increased to a record \$268 million. This represents a 23% increase over fiscal 1978.



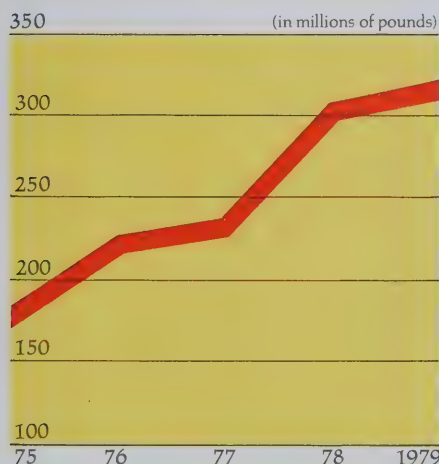
Net Income

Our 1979 profits were \$8,503,000, as compared to \$10,623,000 (restated) in 1978.



Earnings per Share

Earnings per share were \$1.81 per common share, as compared to 1978 earnings of \$2.34 (restated).



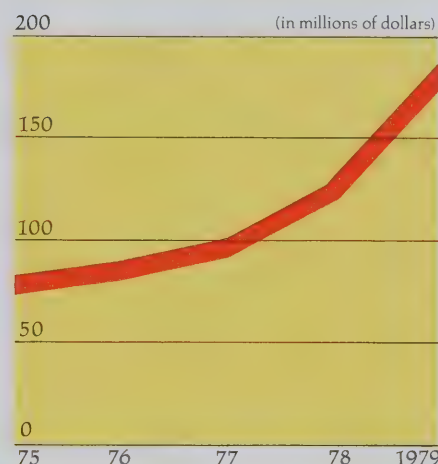
Fish Landings

Fish landings were 319,000,000 pounds for fiscal 1979 — a new high for the Company.



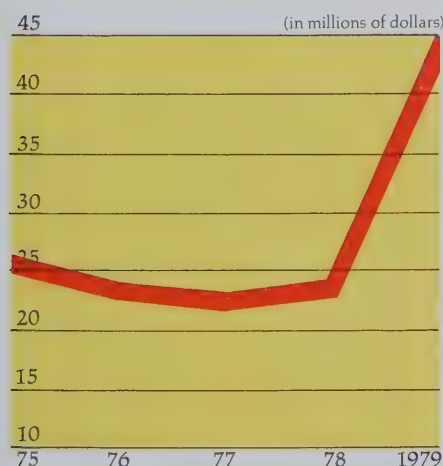
Working Capital

The working capital position improved in the year by \$3,372,000.



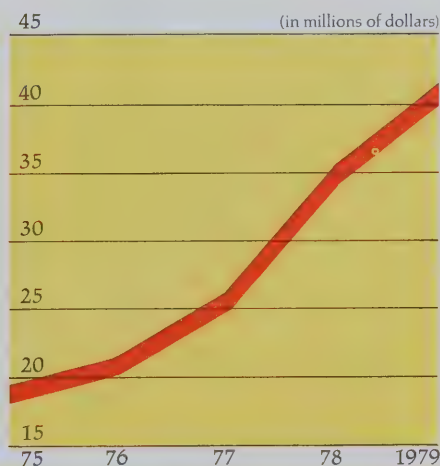
Total Assets

Net investments in new plants and trawlers amounted to \$31,528,000 in 1979.



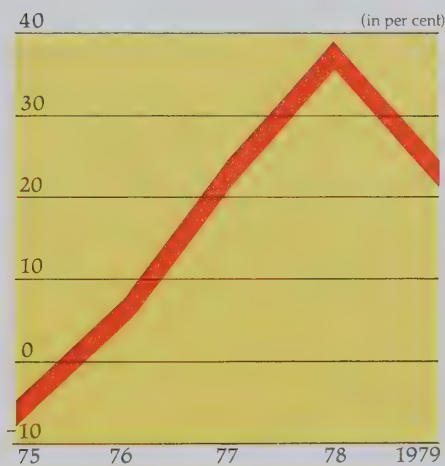
Long Term Debt

Long term debt increased in the year by a net amount of \$20,740,000 mainly as a result of increased investment in fixed assets.



Shareholders' Equity

Shareholders' equity has reached \$40,989,000. This higher base will assist the Company in supporting its planned future growth.



Return on Average Common Shareholders' Equity

The return on average common shareholders' equity amounted to 23.5% for the year. The return on average shareholders' equity in the past five years averages 19.8%.

Statement of Consolidated Income

(in thousands of dollars)	1979	1978 (restated note 2)
Net sales	\$268,057	\$217,481
Cost of sales	221,858	173,122
	<u>46,199</u>	<u>44,359</u>
Selling, general and administrative expenses	19,523	14,909
Interest — on short-term debt	4,071	1,741
— on long-term debt	2,838	2,223
Provision for depreciation	5,000	4,489
	<u>31,432</u>	<u>23,362</u>
Income from operations before the following	14,767	20,997
Share of affiliated companies' net earnings (losses)	190	(558)
	<u>14,957</u>	<u>20,439</u>
Contribution to Employees' Savings and Profit Sharing Retirement Fund (note 7)	1,496	2,044
Income before income taxes and extraordinary item	13,461	18,395
Provision for income taxes	5,358	7,796
Income before extraordinary item	8,103	10,599
Extraordinary item: Recovery of income taxes upon application of prior years' losses	400	24
Net income for the year	<u>\$ 8,503</u>	<u>\$ 10,623</u>
Earnings per common share:		
Income before extraordinary item	\$1.72	\$2.34
Net income for the year	<u>\$1.81</u>	<u>\$2.34</u>

National Sea Products Limited
and its subsidiary companies

For the fifty-two weeks ended
December 29, 1979
(with comparative figures for the
fifty-two weeks ended
December 30, 1978)

Statement of Consolidated Retained Earnings

(in thousands of dollars)	1979	1978 (restated note 2)
Balance, beginning of year:		
As previously reported	\$ 22,767	\$ 16,472
Increase upon revaluation of inventory (note 2)	1,074	460
As restated	23,841	16,932
Add net income for the year	8,503	10,623
	<u>32,344</u>	<u>27,555</u>
Dividends:		
Preference	106	106
Common	1,854	3,608
	<u>1,960</u>	<u>3,714</u>
Balance, end of year	<u>\$ 30,384</u>	<u>\$ 23,841</u>

See accompanying notes
to financial statements

Statement of Changes in Consolidated Financial Position

National Sea Products Limited
and its subsidiary companies

For the fifty-two weeks ended
December 29, 1979
(with comparative figures for
the fifty-two weeks ended
December 30, 1978)

(in thousands of dollars)

1979

1978
(restated
note 2)

Source of Funds

Net income for the year	\$ 8,503	\$ 10,623
Add charges not represented by cash outlay during the year:		
Depreciation	5,000	4,489
Portion of tax provision applicable to future years	4,628	1,274
Total funds provided from operations and extraordinary item	18,131	16,386
Increase in long-term debt	—	1,856
Disposal of fixed assets	94	79
Total funds provided	18,225	18,321

Application of Funds

Additions to fixed assets:		
Trawlers	12,754	1,844
Land, buildings, wharves and equipment	21,409	8,452
	34,163	10,296
Less federal grants (\$2,635) and mortgage proceeds	27,450	3,160
	6,713	7,136
Dividends paid on common shares (net of \$2,094 common shares issued in 1978)	1,854	1,514
Dividends paid on preference shares	106	106
Reduction in long-term debt	4,075	3,475
Increase in other assets	2,105	2,057
Total funds applied	14,853	14,288
Increase in working capital	3,372	4,033
Working capital, beginning of year:		
As previously reported	15,596	12,650
Increase upon revaluation of inventory (note 2)	1,866	779
As restated	17,462	13,429
Working capital, end of year	\$ 20,834	\$ 17,462

See accompanying notes
to financial statements

Consolidated Balance Sheet

National Sea Products Limited
(Incorporated under the laws of the
Province of Nova Scotia)
and its subsidiary companies

December 30,
1978
(restated
note 2)

December 29,
1979

(in thousands of dollars)

Assets

Current:

Cash	\$ 170	\$ 480
Accounts receivable — trade	27,187	20,801
Accounts receivable — fishermen and other	5,250	2,537
Income taxes recoverable	1,293	—
Inventories of marketable products and supplies (note 2)	66,053	47,256
Prepaid expenses	2,075	1,190
Total current assets	102,028	72,264

Fixed (note 3)

68,500	42,066
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Other:

Investments in shares of affiliates	8,421	6,971
Advances to affiliates	38	1,070
Sundry investments and other assets	2,192	505
	10,651	8,546

See accompanying notes
to financial statements

\$181,179

\$122,876

December 29, 1979

(in thousands of dollars)	December 29, 1979	December 30, 1978 (restated note 2)
Liabilities and Shareholders' Equity		
Current:		
Bank indebtedness (secured)	\$ 55,139	\$ 25,885
Accounts payable and accrued charges	21,819	19,809
Income taxes payable	529	6,136
Instalments on long-term debt due within one year	3,707	2,972
Total current liabilities	81,194	54,802
Long-term debt (note 4)	44,605	23,865
Deferred income taxes	14,391	9,763
Shareholders' equity (note 5):		
Capital —		
385,875 preference shares	1,929	1,929
4,635,216 common shares	6,940	6,940
	8,869	8,869
Contributed surplus	1,736	1,736
Retained earnings	30,384	23,841
	40,989	34,446
	<u>\$181,179</u>	<u>\$122,876</u>

On behalf of the Board:
H. B. Rhude, Director
W. O. Morrow, Director

Notes to Consolidated Financial Statements

National Sea Products Limited
and its subsidiary companies

December 29, 1979

1. Summary of significant accounting policies

- (a) *Basis of consolidation*
The accompanying financial statements consolidate the accounts of the company and all its subsidiaries.
- (b) *Foreign exchange translation*
The financial statements of foreign subsidiaries and affiliates have been translated into Canadian dollars as follows: current assets and current liabilities at exchange rates prevailing at the end of the year; non-current assets, long-term debt and depreciation provisions on the basis of rates in effect at the date of acquisition; income and expenses (other than depreciation provisions) at average exchange rates prevailing during the year. Translation adjustments resulted in gains included in consolidated income of \$181,000 (1978 - \$558,000, restated note 2).
- (c) *Inventory valuation*
Inventories are valued at the lower of cost and net realizable value with cost determined principally on a FIFO (first-in first-out) basis.
- (d) *Fixed assets*
Fixed assets are carried at cost. Depreciation of fixed assets is provided on the straight-line basis at the following rates per annum:
- | | |
|------------------------------|---|
| Brick buildings | 4% |
| Wooden buildings and wharves | 5% |
| Machinery and equipment | 5% and 10% |
| Trawlers | 8% for 5 years and 6% for next 10 years |
| Other | 10% and 25% |
- (e) *Investments in shares of affiliates*
These investments represent companies in which National Sea Products Limited has a substantial interest and are carried at National's equity in their net assets; current income is recognized on the basis of National's share of their net earnings as reported.

- (f) *Sundry investments*
Sundry investments are carried at cost. Income from these investments is included in income for the year only to the extent of dividends received.
- (g) *Recognition of investment tax credits*
Investment tax credits are used to reduce the provision for income taxes in the year in which the tax liability is reduced.

2. Change in accounting

In 1975, a United States subsidiary adopted the LIFO (last-in, first-out) method of inventory costing for a substantial portion of its inventory. Although the company believes that the LIFO method has certain advantages, it has decided, for purposes of corporate management and consistency in reporting of inventories, to change to the FIFO (first-in, first-out) basis of costing U.S. inventories for the consolidated financial statements.

As a result, retained earnings have increased in the amount of \$460,000 representing the cumulative effect (net of income taxes and other related adjustments) of the change for 1977 and prior years. The effect of the change on income for 1979 and income previously reported for 1978 is as follows:

	1979	1978
Increase in—		
Income for the year, before extraordinary item	\$480,000	\$614,000
Earnings per common share	\$0.10	\$0.14

The change has no adverse effects in determining income taxes payable by the U.S. subsidiary as there is no longer a requirement under U.S. income tax laws that the LIFO method be used with respect to a subsidiary's inventory included in a foreign parent company's financial reporting.

3. Fixed assets

Major categories of fixed assets are:

	December 29, 1979	December 30, 1978
Land	\$ 1,525,000	\$ 1,442,000
Buildings, wharves and equipment	65,753,000	47,468,000
Trawlers	33,326,000	32,682,000
	<u>100,604,000</u>	<u>81,592,000</u>
Less accumulated depreciation:		
Buildings, wharves and equipment	25,374,000	22,628,000
Trawlers	18,830,000	16,898,000
	<u>44,204,000</u>	<u>39,526,000</u>
Trawlers under construction (note 7)	12,100,000	—
	<u>\$ 68,500,000</u>	<u>\$42,066,000</u>

4. Long-term debt

Particulars of long-term debt are:

Secured —

Trawler mortgage loans:

Loans at rates from 5% to 7½% maturing from 1980-1988	\$ 2,017,000	\$ 2,032,000
Loans at rates from 8½% to 10¾% maturing from 1989-1992	8,288,000	8,588,000
Interim new trawler financing (note 7)	10,616,000	—
	20,921,000	10,620,000

Other:

Bank indebtedness bearing interest at 112% of the New York bank prime lending rate, due 1980 to 1982	1,194,000	1,613,000
Bank indebtedness bearing interest at ¾ of 1% above the bank prime lending rate, due 1980 to 1986, secured by a floating charge on the Company's assets	7,000,000	8,000,000
Bank indebtedness, portions bearing interest at ¾ of 1% and 1% above the bank prime lending rate, due quarterly to 1983	525,000	510,000
Mortgages due semi-annually at rates from 8% to 12% maturing from 1984 to 1994	2,825,000	2,590,000
Non-interest bearing note due at minimum of \$75,000 per annum to 1988	884,000	1,000,000
6½% Series "A" bonds due quarterly to 1994	2,300,000	—
10⅞% Series "B" & "C" bonds due quarterly to 1994	6,196,000	1,375,000
Mortgage bearing interest at escalating rates from bank prime to 1¼% premium above the bank prime lending rate, due quarterly to 1994	5,500,000	—
	26,424,000	15,088,000

Unsecured —

6¾% Subordinated Sinking Fund Debentures Series "A" due 1981	1,285,000	1,535,000
Less debentures held for sinking fund, at par	318,000	406,000
	967,000	1,129,000
	48,312,000	26,837,000
Less instalments due within one year included in current liabilities	3,707,000	2,972,000
	\$ 44,605,000	\$23,865,000

Principal and sinking fund payments required in each of the next five fiscal years:

1980	\$3,707,000
1981	4,656,000
1982	5,186,000
1983	5,552,000
1984	5,306,000

These payments include instalments on \$36,000,000 new trawler financing, commencing in 1982 (note 7).

5. Shareholders' equity(a) *Details of share capital are*

	Authorized Shares	Issued and Outstanding			
		December 29, 1979		December 30, 1978	
		Shares	\$	Shares	\$
5½% Class C cumulative redeemable convertible preference shares of the par value of \$5 each, redeemable at par	600,000	324,249	\$1,621,245	321,824	\$1,609,120
5½% Class D cumulative redeemable convertible preference shares of the par value of \$5 each, redeemable at par	400,000	61,626	308,130	64,051	320,255
Subordinated redeemable preference shares of the par value of \$1 each, redeemable at par	1,025,546	—	—	—	—
Class A convertible common shares without nominal or par value	9,000,000	3,512,066	5,258,021	3,501,565	5,242,300
Class B convertible common shares without nominal or par value	9,000,000	1,123,150	1,681,502	1,133,651	1,697,223
			<u>\$8,868,898</u>		<u>\$8,868,898</u>

The Class A and Class B convertible common shares are inter-convertible at the option of the shareholder on a one-for-one basis and rank equally with respect to dividends and in all other respects. Similarly, the Class C and Class D convertible preference shares are inter-convertible at the option of the shareholder on a one-for-one basis and rank equally with respect to dividends and in all other respects.

(b) *Trust Deed restrictions*

The trust indenture securing the 6¾% subordinated sinking fund debentures Series "A" contain certain restrictions including, among others, restrictions as to payment of dividends, reduction of capital and retirement of subordinated debentures in the event of consolidated working capital (without deducting the portion of long-term debt due within one year) being less than \$6,000,000 or consolidated retained earnings being less than \$6,325,000.

6. Income taxes

- (a) Investment tax credits of approximately \$1,391,000 are available to offset future Canadian income tax liabilities and expire in 1985.
- (b) Tax reductions of \$158,000 (1978 – \$250,000) have been reflected to give effect to the investment tax credit utilized by the Company.

The provision for income taxes includes a reduction of \$358,000 (1978 – \$216,000) resulting from application of the 3% inventory allowance under the Income Tax Act.

- (c) The Company has potential tax benefits resulting from tax losses for filing purposes of approximately \$1,230,000, which have not been recognized in the financial statements. These expire as follows:

1982	\$346,000
1983	—
1984	884,000

7. Commitments

- (a) The Company has contracted for the construction of six stern trawlers at a net cost to the Company of \$37,000,000. Mortgage loans in the amount of \$36,000,000 repayable over 15 years have been arranged. Interim financing during construction is set out as part of long-term debt.
- (b) An unfunded liability of \$578,000 for an executive and management pension plan is being funded and amortized by the Company in equal annual amounts to 1990.
- (c) Employees of the Company meeting specified eligibility requirements may participate in an Employees' Savings and Profit Sharing Retirement Fund covering employees of the Company and its subsidiaries. Participation in the Plan requires a contribution from the employee. The Company contributes an amount equal to 10% of its consolidated income before income taxes.

Notes

- (d) Operating lease commitments approximate \$750,000 per year over each of the next five years and result principally from office premises' leases.

8. Contingent asset

Cambridge Reinsurance Limited, a major affiliated company which National Sea Products Limited (National) accounts for on the equity basis, is currently engaged in litigation for the recovery of approximately \$1,700,000 in U.S. funds of losses previously reported in Cambridge's financial statements. Consistent with its policy of recording income from the affiliate as reported by the affiliate in its financial statements, National will include in its income its share of any recoveries when reported by Cambridge.

9. Comparative figures for 1978

Certain of the 1978 figures have been reclassified to conform to the classifications adopted in 1979.

Auditors' Report

To the Shareholders of
National Sea Products Limited:

We have examined the consolidated balance sheet of National Sea Products Limited as at December 29, 1979 and the consolidated statements of income, retained earnings and changes in financial position for the fifty-two weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 29, 1979 and the results of its operations and the changes in its financial position for the fifty-two weeks then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the change in accounting for inventories referred to in Note 2 to the financial statements.

Clarkson Gordon

Halifax, Canada
February 22, 1980

Chartered Accountants

Comparative Financial Information for 1975-1979

National Sea Products Limited
and its subsidiary companies

(all amounts are expressed in thousands,
except as indicated +)

	1979	1978	1977	1976	4 months 1975	1975
				(unaudited)	(unaudited)	
Working Capital	\$ 20,834	17,462	13,429	10,789	11,506	11,274
Plant, Equipment, Trawlers and other Fixed Assets after Depreciation	\$ 68,500	42,066	36,338	35,451	36,087	36,317
Total Assets	\$ 181,179	122,876	90,881	85,297	77,500	75,389
Accumulated Deferred Income Taxes	\$ 14,391	9,763	8,489	7,664	7,355	7,137
Long Term Debt	\$ 44,605	23,865	22,324	23,375	24,448	25,488
Shareholders' Equity:						
Preference Shares	\$ 1,929	1,929	1,929	1,929	1,929	1,929
Common Shares	\$ 6,940	6,940†	4,846	4,846	4,846	4,846
Contributed Surplus	\$ 1,736	1,736	1,736	1,736	1,736	1,736
Retained Earnings	\$ 30,384	23,841	16,932	12,422	11,329	10,561
Total Shareholders' Equity	\$ 40,989	34,446	25,443	20,933	19,840	19,072
Additions to Plant, Equipment, Trawlers and other Fixed Assets during the year	\$ 34,163	10,296	5,207	5,993	1,130	6,271
Fish Landings (lbs)	319,000	301,000	232,000	220,000	69,000	178,000
Herring Purchased for Reduction (lbs)	—	—	—	—	2,000	4,000
Net Sales	\$ 268,057	217,481	164,659	127,066	37,363	97,324
Depreciation	\$ 5,000	4,489	4,142	4,023	1,326	3,752
Income Taxes	\$ 5,358	7,796	3,009	1,084	513	(590)
Net Income	\$ 8,503	10,623	5,154	1,199	821	(1,102)
Dividends on Preference Shares	\$ 106	106	106	106	53	106
Dividends on Common Shares	\$ 1,854	3,608†	538	—	—	120
Earnings Retained in Business for Expansion	\$ 6,543	6,909	4,510	1,093	768	(1,328)
Earnings per Common Share:						
Before extraordinary items	+ \$ 1.72	2.34	1.09	0.17	0.15	(0.21)
After extraordinary items	+ \$ 1.81	2.34	1.13	0.24	0.17	(0.27)
Common Dividends paid per share — Class A	+ 40.0c	79.3c†	12.0c	—	—	2.7c
Common Dividends paid per share — Class B	+ 40.0c	74.4c†	12.0c	—	—	2.3c
Earnings as a Percentage of Sales	+ 3.2%	4.9%	3.1%	0.9%	2.2%	(1.1%)
Cash Flow per average number of Common Shares Outstanding	+ \$ 3.89	3.62	2.23	1.21	0.52	0.33
Number of Common Shares Outstanding at Year End	+ 4,635,216	4,635,216	4,485,693	4,485,693	4,485,693	4,485,693

By Shareholders' Resolution dated December 10, 1975 the Company changed
it fiscal year end from August 31 to the Saturday nearest to December 31.

Comparative financial information for 1975 through 1978 has been restated
to give affect to the change in accounting for inventories of a United States
subsidiary as set forth in note 2 of the 1979 consolidated financial statements.

†46.7c per share (\$2,094,000) of the common dividends paid was reinvested
in additional common shares through a rights offering.

Corporate Directory

Board of Directors

- H. P. Connor, *Halifax, N.S.*
**Frank M. Covert, *Q.C., Halifax, N.S.*
**J. B. Estey, *Loggieville, N.B.*
*J. B. Morrow, *Lunenburg, N.S.*
*W. O. Morrow, *Halifax, N.S.*
*H. B. Nickerson, *North Sydney, N.S.*
*J. E. A. Nickerson, *North Sydney, N.S.*
C. C. Pratt, *St. John's, Nfld.*
*H. B. Rhude, *Q.C., Halifax, N.S.*
The Hon. H. J. Robichaud,
Fredericton, N.B.
**F. W. Russell, *St. John's, Nfld.*
P. J. Smith, *Halifax, N.S.*

*Member of the Executive Committee

**Member of the Audit Committee
(W. O. Morrow and M. L. Pitman are ex-officio
members of the Audit Committee)

Officers and Senior Management

H. B. Rhude, *Q.C.,*
Chairman of the Board and Executive Committee
W. O. Morrow
President and Chief Executive Officer
J. B. Morrow
Senior Vice President
I. H. Langlands
Vice President
J. A. Tupper
Vice President
M. L. Pitman
Vice President - Finance and Treasurer
E. H. Demone
Vice President - Fleet
J. P. McNeil
Vice President - Marketing, Canada
A. J. Roche
Vice President
F. C. Hart
Vice President - International Marketing
F. D. McGee
Secretary and Company Solicitor
S. J. Campbell
Assistant Secretary
I. C. McDermaid
President, McDermaid Agencies Limited
D. J. Mosher
President, Scotia Trawler Equipment Limited
J. H. Rigg
President and Managing Director,
Hamilton Insurance Brokers Limited
and Subsidiary Companies
K. H. Ritcey
President, National Sea Products (U.S.)
Corp. Limited and National Sea Products Inc.

Subsidiary Companies

National Sea Products (U.S.) Corp.
Limited
Tampa, Florida
National Sea Products Inc.
Rockland, Me.
Natlake Limited
Burgeo, Nfld.
McDermaid Agencies Limited
Halifax, N.S.
Scotia Trawler Equipment Limited
Lunenburg, N.S.

Major Affiliated Companies

Hamilton Insurance Brokers Limited
Cambridge Reinsurance Limited
Canadian International Insurance
(Management) Limited
Hamilton, Bermuda
Burgeo Seafoods Limited
Burgeo, Nfld.

Auditors

Clarkson Gordon
Chartered Accountants

Transfer Agents

Common Shares
Montreal Trust Company
Preference Shares
The Company, Secretary's Office
P.O. Box 2130, Halifax, N.S.

Bankers

The Royal Bank of Canada
The Bank of Nova Scotia

Plant Locations

Digby Division,
Nova Scotia

Lockeport Division,
Nova Scotia

Lunenburg Division,
Nova Scotia

Halifax Division,
Nova Scotia

Louisbourg Division,
Nova Scotia

North Sydney Division,
Nova Scotia

Pictou Division,
Nova Scotia

Shediac Division,
Shediac, New Brunswick
Summerside, Prince Edward Island
Morrell, Prince Edward Island
Deer Island, New Brunswick

Shippegan Division,
New Brunswick

Charlottetown Division,
Prince Edward Island

Magdalen Islands Division,
Amherst, Quebec
Grand-Entree, Quebec

St. John's Division,
Newfoundland

Newfoundland Inshore Fisheries Division,
Arnold's Cove, Newfoundland
Lark Harbour, Newfoundland
Piccadilly, Newfoundland

LaScie Division,
Newfoundland

Burgeo Seafoods Limited,
Newfoundland

Scotia Trawler Equipment Limited,
Lunenburg, Nova Scotia

National Sea Products Inc.,
Rockland, Maine

National Sea Products (U.S.) Corp.,
Tampa, Florida

